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C O N F I D E N T I A L SECTION 01 OF 02 BRASILIA 001987

SIPDIS

TREASURY FOR OASIA - DAS LEE AND SSEGAL  
NSC FOR RENIGAR AND DEMPSEY  
USDOC FOR 3134/USFCS/OIO/EOLSON/DDEVITO  
USDOC FOR 4332/ITA/MAAC/WH/OLAC/DMCDOUGALL/ADRISCOLL  
USDOC FOR 4332/ITA/MAC/WH/OLAC/JANDERSON/WBASTIAN  
STATE FOR EB/IFD/OMA - KMOSS

E.O. 12958: DECL: 08/05/2014

TAGS: [EFIN](#) [ECON](#) [PGOV](#) [BR](#)

SUBJECT: MORE ALLEGATIONS AGAINST BRAZIL CENTRAL BANK  
GOVERNOR

REF: A. BRASILIA 1906

- [1](#)B. 03 BRASILIA 1846
- [1](#)C. 03 BRASILIA 2365
- [1](#)D. 03 BRASILIA 3292

Classified by Economic Counselor Roman Wasilewski, Reasons  
1.4 (b) and (d).

[1](#)1. (SBU) Summary. A new charge of financial misconduct against Central Bank President Meirelles contributed to market unease on Thursday August 5, unlike previous allegations that he failed to properly disclose his finances (ref A). The new allegation involves a \$50,000 payment by Meirelles in October 2002, before he became Central Bank Chairman, to an account allegedly associated with black market currency traders exposed in the Banestado case (refs B-D). As with the previous allegations, Meirelles has fought back quickly and publicly, stating in multiple interviews and press appearances since yesterday that the payment was an innocent one made for the renovation of his New York apartment. Meirelles has stated that he will not contemplate stepping down, and President Lula reportedly has said that he will not ask Meirelles to do so. The reassurances appear to have calmed financial markets, which by mid-day Friday were recovering nicely. We do not believe that the current charges will end in Meirelles' departure. Even if fresh revelations were ultimately to do so, given Lula's personal commitment to an orthodox economic policy agenda, we do not doubt that he would replace Meirelles with someone like-minded. End Summary.

[1](#)2. (U) Veja Magazine published on Thursday August 5 charges that Meirelles had paid \$50,000 into an offshore account associated with a well known black market currency trader and failed to report the existence of the account from which the payment was made on his 2002 tax return. This followed on the heels of allegations each of the last two weeks about income-tax improprieties prior to 2003 (ref A). Unlike the previous instances, the latest accusation affected financial markets, by traders' accounts, exacerbating worries over record high oil prices. The Sao Paulo stock exchange (BOVESPA) fell 3.82% on the day, the Real depreciated 0.5% and Brazil's country risk rose 3%, closing at 615.

[1](#)3. (U) Meirelles once again fought back quickly, granting several interviews, issuing a Central Bank press release and appearing on the August 6 "Good Morning Brazil" to refute the charge. In denying any wrong-doing, Meirelles claimed that he had no personal connection with the currency trader and had simply paid a \$50,000 bill owed to a third party in connection with the renovation of his New York apartment by transferring money to the (ultimately suspect) account named by that party. Regarding the second part of the charge, that he had failed to declare on his 2002 tax return the account from which the payment was made, Meirelles stated there was no such obligation because the account was closed before the end of 2002.

[1](#)4. (U) The accusation sparked renewed opposition calls for Meirelles to step down, a step that Meirelles reiterated he is not contemplating. While not speaking out publicly, Lula is reported widely to have told confidants that he will not ask Meirelles to go and as being satisfied with Meirelles' explanations of the transactions. The reassurances appear to have calmed local financial markets, which by mid-day Friday had recovered almost half of Thursday's lost ground.

[1](#)5. (C) The opposition PFL and PSDB parties are planning to make political hay out of the issue (despite the fact that Meirelles himself is a PSDB member who gave up his seat in the Federal Chamber of Deputies to take over at the Central Bank). PSDB Senator Antero Paes de Barros, who chairs the Senate's long-running inquiry into the Banestado money laundering scandal is believed by some to have leaked the information on Meirelles' bank accounts from the archives he has collected for the Banestado case. If so, this would not be the first time Paes de Barros has been suspected of

politicized, anonymous leaks, having played a part in the emergence of the famous Waldomiro/Charlie Waterfall videotapes.

16. (SBU) There is some maneuvering now over whether Meirelles will be called before the Senate's Economic Affairs or Oversight Committee, but in the end the two committees may meet in joint session to question him. The opposition parties could seek to drag out the affair for weeks to avoid taking action on legislation that President Lula would like to see pass in the abbreviated Congressional sessions before the October municipal elections. Questioning Meirelles about alleged corruption would provide a headline-making alternative for an opposition that does not want to hand Lula any political victories that could help Workers' Party (PT) candidates in the elections.

17. (SBU) Comment: Meirelles' open discussion of the allegations with the press stands in marked contrast to Lula Chief of Staff Jose Dirceu's closed-mouth reaction to the Waldomiro Diniz scandal of early this year. Barring extensive new revelations, we continue to believe that GoB damage control efforts in this case and the relatively minor nature of the charges make it unlikely that Meirelles will be forced to leave. Moreover, the fact that a replacement would require Congressional confirmation gives Lula and the GoB even more incentive to defend Meirelles, since obtaining such confirmation ahead of the October municipal elections would be difficult and give disaffected congressmen a target at which to aim their discontent with interest rate policy, the GoB's avowed intent to seek Central Bank autonomy in 2005, and the broader GoB economic policy agenda. Even in the unlikely event that fresh future revelations do force Meirelles out, we have no doubt that Lula will choose a replacement from Brazil's ample field of qualified candidates who is equally dedicated to the orthodox policies that have marked Meirelles' tenure. The GoB's commitment to orthodox economic policy does not hinge on Meirelles, but rather on Lula himself.

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